



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Scheduled Report - public distribution

Date: 2/1/2000

GAIN Report #MX0014

## **Mexico**

## **Poultry**

## **Mexico's Poultry Sector Increases Growth**

## **Expectations**

## **2000**

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### **Report Highlights:**

As a result of dynamic economy recovery and the expected impact of lower production costs, Mexico's poultry meat and egg sectors are anticipating growth of 6 and 3 percent respectively, instead of the previously projected 3 and 2 percent. A new regulation that went into force in 1999 is expected to hamper imports of U.S. table eggs.

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Semi-Annual Report  
Mexico [MX1], MX

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## SECTION I. SITUATION AND OUTLOOK

### Economic Situation and Outlook

The outlook for the Mexican economy continues to brighten after the uncertainty caused by the economic crises in Russia, Asia, and Brazil during the latter part of 1998 and early 1999. The nearly tripling of world oil prices combined with the Government of Mexico's (GOM) conservative fiscal and monetary policies have led to considerable strength in the Mexican economy. Estimated at 3.5 percent, GDP growth for 1999 surpassed earlier expectations, and the Bank of Mexico made believers out of skeptical market analysts by finishing 1999 below its 13 percent inflation target for the year, with an estimated 12.3 percent inflation rate.

That optimism is substantiated by the trade data. Mexico's exports increased 16 percent during the first eleven months of 1999 compared to the same period in 1998. Meanwhile, imports increased 12.9 percent and the trade deficit decreased by 36.7 percent during the same period. Higher oil prices and a more robust U.S. economy are the primary reasons for these improvements. The United States remains by far the most important market for Mexico's exports (88 percent in 1998) and the most important source of imports (74 percent).

Looking forward to 2000, the government projects that the current account deficit will be approximately US\$15.4 billion, a figure that would constitute a manageable 3.1 percent of GDP, but that's an increase from the 2.8 percent estimated for 1999. The GOM official inflation target for 2000 is 10.0 percent. The yearly average exchange rate is forecast at 10.4 pesos/US\$, which would be a modest depreciation from the average rate of 9.6 that prevailed in 1999. The GOM is targeting a fiscal deficit of only 1.0 percent of GDP, a decrease from the 1.25 percent deficit estimated for 1999..

Achieving these projections depends in a large part on strong oil prices. The higher than expected GDP growth rate in 1999 and the strength of the trade account are largely attributable to the rise in oil prices. Moreover, the GOM receives nearly one-third of its revenues from oil. The GOM used US\$16.0 per barrel to prepare the 2000 budget, a very reasonable target price given that the agreement to limit supply by the main exporting countries is likely to be extended for a good part of 2000. The price of the Mexican crude closed at US\$22.32 in December 1999. (NOTE: Mexican crude oil is a lower grade than North Brent crude.)

These reasons for optimism notwithstanding, it's important to note that the Mexican market tends to overreact to good or bad news and could be adversely affected by external or internal shocks. In particular, the Mexican economy is susceptible to U.S. economic conditions. A significant downturn in the U.S. economy, a large sustained correction in the U.S. equities market, or a pronounced increase in U.S. interest rates, could all trigger a downturn in Mexico. Internal politics also could present a threat to the economy. Mexico will be holding elections in July and the country has a history of economic turmoil in the year of or following elections.

## Poultry Situation and Outlook

FAS/ Mexico has revised upward the Mexican poultry meat production forecast for MY 2000 supported by generally low feed grain prices and a dynamic domestic demand in the new year. A recovery in the Mexican economy, including lower interest rates and a strong peso, has improved the outlook for Mexican poultry firms. The production figure for 1999 has also been raised based on revised data from the poultry industry.

The 2000 poultry consumption forecast is up based on ongoing improvement in consumer purchasing power and prospects for lower prices as the result of larger supplies. FAS/Mexico also raised slightly the 1999 preliminary estimate of consumption to reflect lower retail prices for chicken meat. Consumer purchasing power is anticipated to increase slightly relative to 1999.

The estimate of total Mexican imports of poultry meat has been lowered for 2000 mainly due to the domestic production rebound. Also, the 1999 import estimate of poultry meat has been revised downward based on most recent U.S. data.

Contrary to previous years, the Government of Mexico (GOM) has allocated imports certificates of duty-free mechanically deboned meat (MDM) substantially below the NAFTA tariff rate quota (TRQ) level for 2000, as the Ministries of Commerce (SECOFI) and Treasury (SHCP) are analyzing the possibility of imposing a minimum 30 percent over-quota tariff. The GOM announced the over-quota tariff in Mexico's Federal Register on December 31, 1999. Traditionally the GOM had waived the enforcement of the original TRQ for MDM as local production of this product is not enough to meet demand. In December of 1998, for example, the GOM issued import certificates of U.S. MDM for the first semester of 1999 well above the original NAFTA TRQ for 1999 (See MX 9013)

For turkey meat, the estimate of 1999 Mexican output has been reduced as growers faced high stock's levels in 1998. Likewise, the 1999 consumption estimate has been revised downward reflecting more recent industry information and the 2000 forecast is in line with that reduced estimate. Domestic sausage and cold meat firms continue to be major users of turkey parts in Mexico. Meanwhile, domestic firms produce mostly whole turkeys, most of which are consumed during the Christmas season.

The egg production estimates for both 1999 and 2000 have been revised upward reflecting updated industry statistics. Imports of U.S. eggs in 2000 are expected to cover the NAFTA TRQ level. As in 1999, hatching eggs are projected to account for the majority of the total. Some avian leucosis outbreaks and the Mexican regulation which restricts inter-state movement of domestic eggs/chicks/birds will together likely create more demand for imported hatching eggs. The GOM continues to restrict access of U.S. fresh table eggs beyond Mexican border areas.

On December 2, 1999, Mexico's Secretariat of Health (SSA) published in the "*Diario Oficial*" (Federal Register) the final regulation regarding shell eggs and egg products (see MX0001). It is the final version of a proposed rule that was published on August 26, 1997 (see MX7102). This final rule will impact imports, mainly because it mandates that once eggs are refrigerated, they must be kept refrigerated continuously to the point of sale to the consumer. Mexico lacks a continuous cold chain through the retail level. The effective date of this regulation will be February 2, 2000.

## SECTION II. STATISTICAL TABLES

## Poultry Meat, Total

PSD Table						
Country	Mexico					
Commodity	Poultry, Meat, Total				(1000 MT)(MIL HEAD)	
	Revised1998		Preliminary1999		Forecast2000	
	Old	New	Old	New	Old	New
Market Year Begin	01/1998		01/1999		01/2000	
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	1710	1710	1809	1919	1863	2033
Whole, Imports	6	6	7	7	7	7
Parts, Imports	225	225	231	222	235	228
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	231	231	238	229	242	235
<b>TOTAL SUPPLY</b>	1941	<b>1941</b>	2047	<b>2148</b>	2105	<b>2268</b>
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Consumption	1936	1936	2042	2143	2100	2263
Other Use, Losses	5	5	5	5	5	5
Total Dom. Consumption	1941	1941	2047	2148	2105	2268
TOTAL Use	1941	1941	2047	2148	2105	2268
Ending Stocks	0	0	0	0	0	0
<b>TOTAL DISTRIBUTION</b>	1941	<b>1941</b>	2047	<b>2148</b>	2105	<b>2268</b>
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

## Poultry, Meat, chicken-16wks

PSD Table						
Country	Mexico					
Commodity	Plty, Meat, Chicken -16 wks				(1000 MT)(MIL HEAD)	
	Revised1998		Preliminary1999		Forecast2000	
	Old	New	Old	New	Old	New
Market Year Begin	01/1998		01/1999		01/2000	
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	1587	1587	1680	1783	1730	1890
Whole, Imports	3	3	3	2	3	3
Parts, Imports	120	120	125	132	127	135
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	123	123	128	134	130	138
<b>TOTAL SUPPLY</b>	1710	<b>1710</b>	1808	<b>1917</b>	1860	<b>2028</b>
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Consumption	1705	1705	1803	1910	1855	2021
Other Use, Losses	5	5	5	7	5	7
Total Dom. Consumption	1710	1710	1808	1917	1860	2028
TOTAL Use	1710	1710	1808	1917	1860	2028
Ending Stocks	0	0	0	0	0	0
<b>TOTAL DISTRIBUTION</b>	1710	<b>1710</b>	1808	<b>1917</b>	1860	<b>2028</b>
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

Poultry, Meat, Turkey

PSD Table						
Country	Mexico					
Commodity	Poultry, Meat, Turkey				(1000 MT)(MIL HEAD)	
	Revised1998		Preliminary1999		Forecast2000	
	Old	New	Old	New	Old	New
Market Year Begin	01/1998			01/1999		01/2000
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	11	11	11	10	11	11
Whole, Imports	2	2	3	4	3	4
Parts, Imports	104	104	106	90	108	93
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	106	106	109	94	111	97
<b>TOTAL SUPPLY</b>	117	<b>117</b>	120	<b>104</b>	122	<b>108</b>
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Consumption	116	116	119	103	121	107
Other Use, Losses	1	1	1	1	1	1
Total Dom. Consumption	117	117	120	104	122	108
TOTAL Use	117	117	120	104	122	108
Ending Stocks	0	0	0	0	0	0
<b>TOTAL DISTRIBUTION</b>	117	<b>117</b>	120	<b>104</b>	122	<b>108</b>
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

Poultry, Eggs

PSD Table						
Country	Mexico					
Commodity	Poultry, Eggs			(MIL HEAD)(MIL PCS)		
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin	01/1998		01/1999		01/2000	
Layers	97	97	98	103	99	106
Beginning Stocks	0	0	0	0	0	0
Production	29898	29898	30436	32354	30984	33324
Hatch Eggs, Imports	188	188	205	132	206	140
Shell Eggs, Imports	55	55	35	25	36	28
Other Imports	27	27	21	5	21	5
Intra EC Imports	0	0	0	0	0	0
TOTAL Imports	270	270	261	162	263	173
<b>TOTAL SUPPLY</b>	30168	<b>30168</b>	30697	<b>32516</b>	31247	<b>33497</b>
Hatch Eggs, Exports	0	0	0	0	0	0
Shell Eggs, Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Hatch Eggs, Consumption	190	190	207	135	208	145
Shell Eggs, Human	27977	27977	28489	30380	29038	31351
Shell Eggs, OT Use/Loss	2000	2000	2000	2000	2000	2000
Other Dom. Consumption	1	1	1	1	1	1
Total Dom. Consumption	30168	30168	30697	32516	31247	33497
TOTAL Use	30168	30168	30697	32516	31247	33497
Ending Stocks	0	0	0	0	0	0
<b>TOTAL DISTRIBUTION</b>	30168	<b>30168</b>	30697	<b>32516</b>	31247	<b>33497</b>
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

## MEXICAN IMPORTS FOR SELECTED POULTRY PRODUCTS, JAN-OCT 1999\*\*

H.S. Tariff Number	Description & Country of Origin	Volume
0105.11.01	Day old chicks, which do not need feeding during transport *	
	U.S.	1,733
	EL SALVADOR	74
	NETHERLANDS	36
	OTHER	72
	SUBTOTAL	1,915
0105.11.02	Breeding stock, layer-type with selected breed certificate when imports are no more of 15,000 heads in each operation *	
	U.S.	348
	NETHERLANDS	80
	CANADA	30
	OTHER	16
	SUBTOTAL	474
0105.11.99	Other *	
	U.S. and subtotal	10
0105.19.99	Other (Chickens) *	
	U.S.	180
	CANADA	7
	OTHER	7
	SUBTOTAL	194
0207.11.01	Other fresh or chilled whole poultry	
	U.S. and subtotal	1,820

H.S. Tariff Number	Description & Country of Origin	
0207.12.01	Other frozen whole poultry	
	U.S. and subtotal	320
0207.25.01	Whole frozen turkey	
	U.S.	74
	CHILE	405
	SUBTOTAL	479
0207.33.01	Whole ducks, geese & guineas frozen	
	U.S. and subtotal	423
0207.26.01	Mechanically deboned turkey meat	
	U.S. and subtotal	1,113
0207.26.99	Fresh & chilled turkey parts	
	U.S.	23,565
	CANADA	110
	SUBTOTAL	23,675
0207.13.01	Mechanically deboned chicken meat fresh or chilled	
	U.S. and subtotal	41,617
0207.14.01	Mechanically deboned chicken meat frozen	
	U.S. and subtotal	40,092
0207.13.99	Fresh & chilled chicken parts	
	U.S.	26,944
	OTHER	7
	SUBTOTAL	26,951
0207.14.99	Frozen poultry parts	
	U.S.	34,720
	OTHER	44
	SUBTOTAL	34,764

H.S. Tariff Number	Description & Country of Origin	
0207.27.01	Mechanically deboned turkey meat,frozen	
	U.S.	13,353
	CANADA	109
	SUBTOTAL	13,462
0207.27.99	Frozen turkey parts	
	U.S.	44,393
	OTHER	238
	SUBTOTAL	44,631
0207.36.99	Duck, geese or guineas cuts, frozen	
	U.S. and subtotal	6
0207.14.02 & 0207.36.01	Poultry livers	
	U.S. and subtotal	0
0407.00.01	Table eggs, fresh, including hatching eggs	
	U.S.	5,565
	OTHER	138
	SUBTOTAL	5,703
1602.31.01	Processed meat (Turkey)	
	U.S.	1,701
	OTHER	6
	SUBTOTAL	1707
1602.39.99	Other processed poultry meat	
	U.S.	142
	OTHER	2
	SUBTOTAL	144

\* THOUSANDS OF HEADS , OTHER VALUES IN METRIC TONS.

\*\* AS OF OCTOBER 1999

SOURCE: GLOBAL TRADE INFORMATION SERVICES, INC. "WORLD TRADE ATLAS"  
MEXICO EDITION, SEPTEMBER 1999.

**Broilers Retail Prices**

<b>BROILERS RETAIL PRICES</b>			
<b>Month</b>	<b>1998</b>	<b>1999</b>	<b>Change %</b>
<b>January</b>	<b>16.68</b>	<b>18.12</b>	<b>8.63</b>
<b>February</b>	<b>17.34</b>	<b>18.09</b>	<b>4.33</b>
<b>March</b>	<b>16.54</b>	<b>17.88</b>	<b>8.10</b>
<b>April</b>	<b>17.32</b>	<b>18.00</b>	<b>3.93</b>
<b>May</b>	<b>16.87</b>	<b>17.84</b>	<b>5.75</b>
<b>June</b>	<b>17.87</b>	<b>18.04</b>	<b>0.95</b>
<b>July</b>	<b>17.96</b>	<b>17.96</b>	<b>0.0</b>
<b>August</b>	<b>18.01</b>	<b>17.90</b>	<b>(0.61)</b>
<b>September</b>	<b>18.11</b>	<b>18.00</b>	<b>(0.61)</b>
<b>October</b>	<b>18.15</b>	<b>18.15</b>	<b>0.0</b>
<b>November</b>	<b>18.09</b>	<b>18.25</b>	<b>0.88</b>
<b>December</b>	<b>17.81</b>	<b>18.25</b>	<b>2.47</b>
<b>Annual Average</b>	<b>17.56</b>	<b>18.04</b>	<b>2.73</b>
<b>Pesos/Kilogram</b>			

Source: UNA (National Poultry Association)

Exchange rate, December 1998, US \$1.00 = \$9.91 pesos

Exchange rate, December 1999, US \$1.00 = \$9.60 pesos

## Broilers Wet Market Prices

BROILERS * WET MARKET PRICES			
Month	1998	1999	Change %
January	14.80	16.93	14.39
February	15.64	16.25	3.90
March	16.43	16.50	0.43
April	16.42	16.64	1.34
May	15.56	16.93	8.80
June	16.97	16.22	(4.42)
July	17.60	17.21	(2.22)
August	17.63	15.86	(10.04)
September	16.29	15.92	(2.27)
October	16.21	15.10	(6.85)
November	16.50	15.25	(7.58)
December	16.50	17.40	5.45
Annual Average	16.38	16.35	(0.18)
Pesos/Kilogram		*whole chicken incld. offal	

Source: UNA (National Poultry Association)

Exchange rate, December 1998, US \$1.00 = \$9.91 pesos

Exchange rate, December 1999, US \$1.00 = \$9.60 pesos

## White Eggs Wholesale Prices

WHITE EGGS WHOLESALe PRICES			
Month	1998	1999	Change %
January	6.65	6.91	3.91
February	6.80	6.87	1.03
March	6.57	6.14	(6.54)
April	6.31	5.82	(7.77)
May	5.90	5.06	(14.24)
June	5.45	5.50	0.92
July	7.25	5.72	(21.10)
August	7.62	6.72	(11.81)
September	7.35	6.58	(10.48)
October	7.65	6.98	(8.76)
November	7.49	6.50	(13.22)
December	7.45	6.20	(16.78)
Annual Average	6.87	6.25	(9.02)
Pesos/Kilogram			

Source: UNA (National Poultry Association)

Exchange rate, December 1998, US \$1.00 = \$9.91 pesos

Exchange rate, December 1999, US \$1.00 = \$9.60 pesos

NAFTA POULTRY AND EGGS TARIFF RATE QUOTAS 1999					
PRODUCT	H.S. Tariff Number	ORIGINAL MT TRQ	ALLOCATION MECHANISM	TOTAL IMPORTS (MT) As of October 1999	% filled
<b>EGGS</b>	0407.00.01	7,535.37		5,746.14	76.26%
Fresh: Border regions a/ Other regions			Direct allocation Auction		
Fertilized: Nationwide			Direct allocation		
<b>Whole fresh, chilled &amp; frozen turkey</b>	0207.24.01 0207.25.01	2,318.53	Direct allocation to the border region and the northern line b/.	639.94	27.60%
<b>Other whole Poultry</b> (Broilers or hens)	0207.11.01	15,070.54	Direct allocation to the border region and the	1,819.94	
fresh, chilled or frozen)	0207.12.01		northern border line.	320.46	
Total				2,140.40	14.20%
<b>Ducks ,geese, and guineas, whole,fresh chilled or frozen</b>	0207.32.01 0207.33.01	999.00 c/	A nationwide auction (only ducks, geese, and guineas)	0.00 422.81	
Total				422.81	42.32%
<b>Mechanically Deboned Meat</b>	0207.13.01 0207.14.01 0207.26.01 0207.27.01	31,300.36	Direct allocation to sausage companies and cold meat producers nationwide	41,617.13 40,258.06 1,554.64 13,614.21	
Total				97,044.04	310.04%
<b>Fresh or chilled Turkey parts</b>	0207.26.99	32,459.67	Direct allocation to border region and the northern border line	27,173.14	
<b>Frozen Turkey parts</b>	0207.27.99		Direct allocation to sausage companies.	48,827.52	
Total				76,000.66	234.14%
<b>Poultry cuts</b> (broilers or hens)	0207.13.99	28,981.83	Direct allocation to border region and	26,950.57	
fresh, chilled or frozen	0207.14.99		the northern border line	34,907.18	
Total				61,857.75	213.44%

## NAFTA POULTRY AND EGGS TARIFF RATE QUOTAS 1999

PRODUCT	H.S. Tariff Number	ORIGINAL MT TRQ	ALLOCATION MECHANISM	TOTAL IMPORTS (MT) As of October 1999	% filled
Duck, goose and guinea cuts, fresh chilled or frozen	0207.35.99 0207.36.99	10.00 d/	A nationwide auction (only ducks, geese and guineas)	0.00 6.15	
Total				6.15	61.50%

Source: UNA (Based on data from General Customs Administration-Treasury Minister, SHCP)

a/ Border region: Includes states of Baja California, Baja California Sur, Quintana Roo and a portion of the state of Sonora; the southern border region along with Guatemala and the municipalities (counties) of Comitán de Domínguez, Chiapas and Salina Cruz, Oaxaca. This region included former free-trade border areas.

b/ Northern border line: The Mexican territory between the International line with the US. and a 20 km parallel line from the International limit, including a portion of the state of Sonora and the Gulf of Mexico, and the municipality (county) of Cananea, Sonora.

c/ Whole ducks, geese, and guineas TRQ is part of the Other Whole Poultry TRQ.

d/ Cuts of ducks, geese, and guineas TRQ is part of the Poultry Cuts TRQ.

TARIFF REDUCTIONS FOR NAFTA POULTRY PRODUCTS			
Year	Table Eggs	Poultry Meat	Turkey Meat
0	50%	260%	133%
1/ JAN 1994	48%	249.6%	127.68%
2/ JAN 1995	46%	239.2%	122.36%
3/ JAN 1996	44%	228.8%	117.04%
4/ JAN 1997	42%	218.4%	111.72%
5/ JAN 1998	40%	208.0%	106.40%
6/ JAN 1999	38%	197.6%	101.08%
7/ JAN 2000	28.5%	148.2%	75.81%
8/ JAN 2001	19%	98.80%	50.54%
9/ JAN 2002	9.5%	49.40%	25.27%
10/ JAN 2003	0%	0%	0%

Source: UNA (National Poultry Association)

MEXICO: POULTRY NUMBERS, 1999	
Type of Bird	Thousand of Head
Laying Hens in production*	103,137
Pullets in grow out	32,316
Light Breeding Hens in production	680
Light Breeding Hens in grow out	388
Light Progenitor Hens in production	6
Light Progenitor Hens in grow out	3
Heavy Breeder Hens in production	6,614
Heavy Breeder Hens in grow out	5,807
Heavy Progenitor Hens in production	185
Heavy Progenitor Hens in grow out	126
Broilers (Per cycle)	186,730
Turkeys (Per cycle)	650
Total Poultry Flock	336,641

\*There are an estimated 19 million laying hens in the second cycle

Source: UNA (National Poultry Association)

PER CAPITA CONSUMPTION -pounds-	1998	1999*	2000*
EGGS	38.9	41.01	41.45
CHICKEN MEAT	36.4	40.13	41.67
TURKEY MEAT	0.27	4.41	4.41

Source: UNA (National Poultry Association)

\* Forecast, as in "Economic Indicators of the Mexican Poultry Sector", Department of Economic Analysis, November, 1999.

STRATEGIC INDICATOR TABLE: POULTRY PRODUCTS TARIFFS				
Country: Mexico				
Report Year: 2000				
H.S.	Product Description	Tariff current Year	TRQ	If filled TRQ
0105.11.01	Day old chicks, which do not need feeding during transport	15.5	N/A	N/A
0105.11.02	Breeding stock, layer-type with selected breed certificate when imports are no more of 15,000 heads in each operation	Ex	N/A	N/A
0105.11.99	Other	3.0	N/A	N/A
0105.19.99	Other (Chickens)	3.0	N/A	N/A
0207.11.01	Other fresh or chilled whole poultry	Ex		148.2
0207.12.01	Other frozen whole poultry	Ex	15,522.7	148.2
0207.32.01	Whole poultry fresh	Ex		148.2
0207.33.01	Whole ducks, geese & guineas frozen	Ex		148.2
0207.13.99	Fresh & chilled chicken parts	Ex	29,851.3	148.2
0207.14.99	Frozen poultry parts	Ex		148.2
0207.26.99	Fresh & chilled turkey parts	Ex	33,433.5	148.2
0207.27.99	Frozen turkey parts	Ex		148.2
0207.24.01	Whole fresh turkey	Ex	2,388.0	101.0
0207.25.01	Whole frozen turkey	Ex		101.0
0207.13.01	Mechanically deboned chicken meat fresh or chilled	Ex		148.2
0207.14.01	Mechanically deboned chicken meat frozen	Ex	32,239.4	148.2
0207.26.01	Mechanically deboned turkey meat	Ex		148.2
0207.27.01	Mechanically deboned turkey meat,frozen	Ex		148.2
0407.00.01	Table eggs, fresh, including hatching eggs	Ex	7,761.6	38.0
1602.31.01	Processed meat (Turkey)	6.0	N/A	N/A
1602.39.99	Other processed poultry meat	6.0	N/A	N/A

Source: UNA (National Poultry Association) & Mexican Federal Register

## SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

### CHICKEN MEAT

#### Production

FAS/ Mexico revised upward Mexican poultry meat production for MY 2000 than earlier anticipated due to gradual recovery in the consumer purchasing power. Moreover, lower production costs, the stable peso exchange rate, better financial situation in the leading companies, as well as gradual economy recovery appears to be the major factor influencing the optimistic scenario for Mexico's poultry meat production. This forecast of poultry production is based mostly on the Mexican National Poultry Association (UNA) statistics and other poultry market contacts. It is important to note, however, that there is no accurate data available for inventory and slaughter figures

Poultry firms are reporting decreases in input cost as a result of low-priced supplies of both domestic and imported feedstuffs. According to UNA, Mexico's poultry meat production continues to increase supported by generally low feed grain prices although poultry prices remain weak. Nearly 60 percent of total production cost of poultry firms are feed costs.

Chicken meat production estimates for 1999 have been revised upward based on industry sources and reflecting consumer preference over other higher priced meats as well as favorable feed prices during most of the year, attractive returns by leading companies, and good advertising campaigns that increased per capita consumption.

With the improving outlook, the Mexican poultry industry has continued to consolidate into a few large companies with each company gaining a larger market share. On December 21, 1999, for example, it was officially reported that BACHOCO, the largest integrated poultry company in Mexico, has agreed to buy Campi, the large poultry company from the Yucatan in US\$155 million. Reportedly, through this acquisition BACHOCO will increase its share in the chicken meat market from 23 percent currently to approximately 30 percent. This merger has many people in the industry worried because they fear it will be difficult to compete with them. According to industry sources, more than 50 percent of Mexican total poultry meat and egg production is produced by six companies. Moreover, approximately 80 percent of total Mexican chicken meat is produced in large vertically integrated companies.

According to UNA, in 1999 Mexico's poultry industry represented 59.4 percent of the total production value in the livestock and poultry sectors (against 57.8 percent in 1998); where production of chicken meat was 29.3 percent and eggs were 30.1 percent.

Industry sources stated that the Mexican poultry industry consumed 10.3 MMT of feedstuffs, including 6.5 MMT of corn and sorghum, 2.1 MMT of oilseeds and 1.7 MMT of other compounds like orthophosphate, calcium, salt, methionine, lysine and meat flour in 1999. UNA also stated that as a result of higher production of poultry meat and eggs, imports of sorghum and corn are expected to increase in 2000. Currently, the poultry producers' direct purchases of grains are increasing. Approximately 80 percent of feedstuffs consumed by poultry industry are processed directly by poultry producers and only 2 percent is acquired from commercial brands.

Modern technology continues to be widely used by domestic poultry firms at the farm level. In the last two years, for example, the Federally Inspected Plants (TIF) were increased from 11 to 14. Moreover, the number of birds slaughtered in the TIF plants has increased. According to the Secretariat of Agriculture, Livestock and Rural Development's (SAGAR) available information, approximately 209 million birds were slaughtered in these plants in 1998, an 11 percent more than a year earlier.

## **Consumption**

Domestic consumption forecast for 2000 was revised upward from earlier forecast due mainly to the gradual recovery in the consumer purchasing power as well as the expectation that poultry meat retail prices will continue to be low. Chicken meat demand is price elastic, so decreased prices have resulted in a significant increase in consumption. Also, consumption estimates for 1999 have been updated based on industry sources. Prices at all levels continue to be determined by market forces. The Mexican government does not provide consumer subsidies on poultry meat

Industry sources indicate that chicken meat consumption continued expanding and covering growing demand of meats, due to low prices and consumers' awareness of the advantages of eating low fat meat. This increase has been also fueled by the gradual recovery of consumers' income. A SAGAR study showed that during the period 1990-1998 chicken demand increased when consumers income rose slightly. It also found that chicken meat was more price elastic than either beef or pork. Moreover, as a result of its competitive price, a significant expansion on poultry meat consumption is expected in 2000.

SAGAR's study also states that crossed elasticities price-demand among pork, red meat and poultry meat is very high. That means that when prices of these two products are low or when the poultry meat price is up, demand moves first for red meat and secondly for pork meat. Contrarily, when poultry meat prices are down and red and pork meat's prices increase, demand for chicken increases, substituting firstly pork meat followed by red meat.

According to UNA, consumption for 2000 is expected to increase to approximately 41.7 pounds per capita from 40.1 pounds per capita in 1999. Roasting chickens (whole chicken without offal) account for 30 percent of chicken meat consumption, while chicken sold in wet markets and stalls (whole chicken including offal) account for approximately 30 percent of the total. Live birds represent 20 percent of total chicken meat consumption. Only 10 percent is purchased in supermarkets (whole chicken without offal), and chicken cuts account just for 10 percent of total consumption.

## **Trade**

Because Mexican income levels have rebounded slightly higher than expected previously and the increased awareness of import requirements for avian influenza (AI) regulations (see policy), the forecast of poultry meat imports for 2000 has been revised upward. Also, import estimates of poultry parts for 1999 have been revised upward while whole poultry estimates were revised downward based on U.S. trade data.

As in 1999, mechanically deboned meat (MDM) imports are anticipated to reach levels probably higher than the total tariff rates quotas (TRQ's) in 2000. According to UNA, even if the GOM implements a 30 percent over-quota duty for MDM imports in 2000, these imports are expected to surpass the quota as local production is not enough to meet

demand (See Policy).

In mid-December 1999, the Secretariat of Commerce and Industrial Development (SECOFI) issued import certificates to 55 meat processors to import 116,746 MT of MDM and turkey parts duty-free for the first half of 2000. This amount was well above the original NAFTA TRQ for 2000. Later, however, SECOFI decided to cut back these import certificates, when the GOM published the announcement stating that the 30 percent over-quota duty for agriculture imports under NAFTA. SECOFI reduced MDM import certificates from 71,302 MT to 23,767 MT and turkey parts from 45,444 MT to 15,148 MT. Reportedly, SECOFI and the Treasury Minister (SHCP) are discussing if the over-quota tariff should be enforced or not in 2000.

Under NAFTA, duty-free access to the Mexican market for 2000 is established at 113,434 MT of poultry meat from the U.S. (see MX9102). This amount is scheduled to grow at a 3 percent annual compound rate until the year 2003, when all imports will be duty free. It should be noted that Mexico has the authority to collect duties on products in excess of TRQ's. To date, however, Mexico has routinely allowed imports of MDM and turkey thigh meat to exceed the quotas, and has opted to waive the duties due to insufficient domestic production to meet demand.

## **Policy**

On December 31, 1999, the Mexican Treasury (SHCP) announced a provision which will grant Mexican Customs the right to collect a minimum of 30 percent of over-quota tariff for agriculture imports under NAFTA. Official and private sources, however, consider it highly unlikely that the GOM will implement this provision.

Since mid-April 1999, the Mexican government has implemented a new rule, NOM-044 on Avian Influenza (AI), which imposes new import requirements on chicken products. According to trade sources U.S. raw chicken meat imports into Mexico border have not been as negatively affected as originally anticipated. Contraband and illegal trade of products reportedly have increased. Currently, only a few U.S. companies are able to comply with flock testing requirements. The regulation requires that exporters provide an official certificate stating that products come from a farm free of AI or that tests at the farm level were conducted within 15 days of processing.

## **Marketing**

The local market for further processed chicken meat products, other than cold meat and sausage, continues to be underdeveloped as most large local processors fiercely compete in the segments of raw, fresh whole chicken and parts. Therefore, both Mexican producers and U.S. exporters may find attractive upgrading the local market through generic promotions aimed at increasing overall consumption of high value chicken meat products. U.S. and Mexican industry may implement joint ventures with local poultry processors to expand production of further processed U.S. raw poultry in Mexico. Such arrangements could improve U.S. competitiveness in third markets for various products, including deboned chicken leg products, ready-to-serve meals and also co-packaging operations using labor-intensive processing methods.

## **TURKEY MEAT**

### **Production**

Estimates for turkey meat production have been revised downward for 1999 based on most recent industry information. According to UNA, high stock levels of 1998 forced producers to reduce production in 1999. Approximately 85 - 90 percent of local production continues to be marketed during Christmas Season mainly as uncooked whole turkey. Moreover, due to poor economies of scale and limited integration, Mexican producers continue to find it difficult to compete against turkey imports. The production forecast for 2000 remains unchanged at 11,200 MT.

### **Consumption and Trade**

The 1999 estimate and 2000 forecast for turkey meat consumption and imports were revised downward according to the most recent industry information and U.S. trade data. Trade sources indicated those turkey parts imports were substituted by lower priced chicken parts imports in 1999. In addition, demand for chicken thigh meat instead of turkey as an input for the domestic sausage industry was very strong in 1999. A similar situation is expected for 2000, thus the turkey consumption estimate has been revised downward. Most of the whole turkey demand continues to be during the Christmas season.

Unofficial estimates indicate that poultry meat is the main raw material of the sausage industry, exceeding a previous participation of 20 percent in 1990, to approximately 60 percent in 1999. Consequently, the production of processed meats has shown a constant growth in the 90's, with a 6.6 percent annual average rate of growth.

According to local trade sources, a leading Mexican retailer and a local chicken producer/ processor imported respectively 48,000 and 30,000 raw, whole turkeys from Chile in the latter months of 1999. Product weights fluctuate between 6-10 kilos each and were primarily sold during the Christmas season. The Chilean brands were from two different producers: Arista and Sopraval. Local turkey producers were understandable unhappy with these imports as they claim that product is of very low quality. They justify this perception based on the small size of the breast and very thick drumsticks. Another key factor is that the export price FOB Manzanillo (a Mexican port on the Pacific Coast) was very low, reportedly at 16 pesos/ kilogram (US\$1.67/ kilogram).

Chile and Mexico have a free trade agreement similar to the NAFTA, however, a big difference is that imports of Chilean poultry are not subject to TRQ's or import tariffs. There is no information available to indicate whether the Chilean turkey's fully complied with import provisions related to AI.

## EGGS

### Production

Egg production forecast for 2000 and 1999 were revised upward from earlier estimates, as well as for layers, based on updated industry information. Industry sources stated that despite the depressed wholesale prices, population growth will likely prompt producers to slightly increase production levels in 2000. Note FAS/Mexico's estimate of layer numbers in the PS&D are based on UNA information.

### Consumption

Estimates for 1999 and 2000 consumption have been revised upward based on more recent industry data. New industry estimate indicates that egg consumption for 2000 will increase by only 3 percent due to oversupply and lower prices. According to UNA, egg prices have declined in real-terms between 25 -30 percent during the 1996 - 1999 period, due mainly to oversupply.

Eggs are still the cheapest source of animal protein in Mexico. Domestic egg consumption depends heavily on retail prices rather than quality or other issues. In the longer term, UNA indicates that egg consumption continues to increase and could rise from the current 18.9 kg per capita (42.3 pounds) to 20 kg per capita (44.1 pounds) in the next few years.

In general, Mexican eggs are usually not washed, refrigerated, sanitized nor oiled when marketed. Approximately 75 percent of domestic egg supplies are marketed in bulk, 20 percent in one dozen cartons, and 5 percent to processors. There are voluntary standards for eggs marketed in cardboard boxes.

### Trade

Imports of U.S. eggs in 2000 will close well below the NAFTA TRQ level, resulting from the implementation of the regulation regarding shell eggs and egg products, NOM-159 (see Policy) as well as oversupply problems. Consequently, the forecast for total imports of all egg types was revised downward. Also, the import estimate for 1999 has been revised downward reflecting most recent U.S. data. According to UNA, imports of U.S. fertile eggs in 2000 are expected to be slightly more than initially forecast due to the sanitary problems caused by Leucosis incidence (see MX 9013). Industry sources continue to question the egg auction system. This partly explained because a portion of the TRQ for fresh table eggs has been overly restrictive. Trade sources pointed out that quotas continue to be awarded to producers who in real interest is in controlling the market rather than importing eggs for resale. In 1999, for example, only one distributor was awarded with a fraction of the quota. Moreover, with the oversupply problems, there was no interest to participate, which was evident by how few producers showed up at the auction.

### Policy

The Secretariat of Health published the final regulation regarding shell eggs and egg products in the Mexico's Federal Register (Diario Oficial) on December 2, 1999. Of primary concern to U.S. exporters is the requirement that, once

fresh table eggs have been refrigerated, they must be kept refrigerated until they reach the final consumer. This situation poses a non-trade tariff barrier for U.S. shell eggs because Mexico lacks a continuous cold chain through the retail level. The effective date of this regulation will be February 2, 2000 (for further information please see MX 0001).

### **Marketing**

Despite the issues relating to table eggs, according to sources there could be more demand for U.S. processed eggs like liquid, frozen, and dried products. As with chicken meat, using generic programs to promote utilization of eggs products, independent of country origin, should be implemented. U.S. exporters may find it attractive to jointly work with the few local egg shellers to develop this market. The potential is great, but educational seminars and technical assistance may be needed to turn prospective customers into confirmed buyers.